ISSUE DATE: March 21, 1996

DOCKET NO. E-015/M-96-14

ORDER APPROVING ELECTRIC SERVICE AGREEMENT AND COMPETITIVE RATE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner
Don Storm	Commissioner

In the Matter of the Petition of Minnesota Power for Approval of an Electric Service Agreement and a Competitive Rate for USG Interiors, Inc.

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PROCEDURAL HISTORY

On January 14, 1993, the Commission issued its ORDER APPROVING COMPETITIVE RATE SCHEDULE AND COMPETITIVE RATE in Docket No. E-015/M-92-1219.[1] In that Order the Commission approved a competitive rate schedule for Minnesota Power's Large Light and Power Service (LLPS) customer class, as well as a specific competitive rate for one customer, the Fond du Lac Development Corporation.

On January 5, 1996, Minnesota Power petitioned for approval of an electric service agreement that included a competitive rate for another LLPS customer, USG Interiors, Inc. (USG).

On February 5, 1996, the Department of Public Service (the Department) filed comments supporting the Company's proposal.

On March 14, 1996, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. FACTUAL BACKGROUND

Minnesota Power supplies both power and energy to USG, a ceiling tile manufacturer in Cloquet, Minnesota. Last year, USG had an average demand of approximately 7500 kW and purchased 57,686 MHW of energy from Minnesota Power.

Because USG's manufacturing enterprise requires a high level of energy, the company seeks

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[1] In the Matter of the Petition of Minnesota Power for Approval of a Competitive Rate Schedule for Large Light and Power Service Customers and a Competitive Rate for the Fond du Lac Development Corporation.

means of reducing its electric service and energy costs. To that end, USG has developed plans for the installation of natural gas-fueled generators at the Cloquet plant.

Minnesota Power's petition for approval of a competitive rate is a response to USG's interest in self-generation. Minnesota Power states that the proposed rate should be approved because it is necessary to meet the competitive alternative and because it meets the statutory parameters for approval.

II. THE STATUTORY REQUIREMENTS FOR APPROVAL OF A COMPETITIVE RATE

Minn. Stat. § 216B.162, subd. 4 provides the terms and conditions of an acceptable competitive rate schedule. Every specific competitive rate must conform to these requirements.

1. The minimum rate for the schedule must recover at least the incremental cost of providing the service, including the cost of additional capacity that is to be added while the rate is in effect and any applicable on-peak or off-peak differential.

The Department stated that Minnesota Power's proposed rate covers incremental costs. Minnesota Power stated that it possesses or has access to sufficient generating capacity to meet USG's electrical needs without constructing any new utility generation facilities.

2. The difference between the standard rate and the proposed rate does not exceed the difference between the standard rate and the cost to the customer of the lowest cost energy alternative.

After comparing Minnesota Power's projected revenues under the competitive rate with USG's incremental costs from self-generating, the Department found that the proposed rate was not lower than necessary to meet the alternative.

3. The term of the contract must be no less than one year and no more than five years.

Under the electric service agreement, USG is obligated to purchase its entire electric service requirements from Minnesota Power for four years, from January 5, 1996, through December 31, 1999. USG has the option of extending the contract for one further year, to December 31, 2000.

4. The electric utility may seek recovery of the difference between the standard tariff and the competitive rate in future rate cases.

Minnesota Power is free to pursue rate recovery.

5. The utility offers the rate in a nondiscriminatory fashion to any customer in the same customer class.

Minnesota Power is offering the competitive rate in response to USG's competitive alternative of self-generation. Any other large power customer in the same factual circumstances would be eligible for the rate.

6. The rate does not compete with district heating or cooling.

7. The rate is not offered to a customer in which the utility holds a financial interest greater than 50 percent.

Minn. Stat. § 216B.162, subd. 7 provides the determinations the Commission must reach when reviewing a specific competitive rate proposal.

1. The rate meets the terms and conditions of subd. 4, as noted above.

2. The customer can obtain its energy requirements from an energy supplier not rate-regulated by the Commission.

USG has stated that it is ready and able to provide its own gas-fueled self-generation if Minnesota Power does not offer a competitive rate. The self-generating facility would not be regulated by the Commission.

3. The customer is not likely to take service from the electric utility seeking to offer the competitive rate if the electric utility charged its standard tariffed rate.

USG has informed Minnesota Power that it will not take service from the utility at the standard Large Light and Power Service rate.

4. After consideration of environmental and socioeconomic impacts, it is in the best interest of all customers to offer the competitive rate to the customer subject to effective competition.

The Department stated that the proposed competitive rate offers no adverse socioeconomic impact.

The Department addressed environmental impact by applying the following formula: the competitive rate is in the best interest of all other customers if the sum of the utility's internal incremental costs and the net external incremental costs of providing electric service to the competitive customer is less than the utility's revenues under the competitive rate.

The Department first used the mean externality values to determine if the competitive rate is in the best interests of other customers. Using those values, the Department found that Minnesota Power's total revenue exceeds the sum of the internal and external incremental costs. The competitive rate is therefore in the best interests of other customers.

The Department noted that if high end externality values are used, the present value of revenue still exceeds the present value of internal and external costs over the period in which the competitive rate agreement is in effect. The competitive rate is also in the best interests of other customers under this calculation.

III. CONCLUSION

The Commission finds that Minnesota Power's proposed competitive rate offering to USG conforms to the requirements of Minn. Stat. § 216B.162. Because USG is capable of going off the system and meeting its energy needs through self-generation, it is in the best interests of Minnesota Power and its ratepayers to offer the competitive rate. The Commission will approve Minnesota Power's proposal for an electric service agreement with USG, including the competitive rate.

ORDER

1. The Commission approves Minnesota Power's proposed electric service agreement with USG Interiors, Inc., including the competitive rate.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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